Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

In the Matter of	)	
	)	WC Docket No. 03-173
Review of the Commission's Rules	)	
Regarding the Pricing of Unbundled	)	
Network Elements and the Resale of	)	
Service by incumbent	)	
Local Exchange Carriers	)	

COMMENTS OF THE GOVERNMENT OF JAPAN

According to the notice of proposed rulemaking (NPRM), the goal of the Federal Communications Commission (FCC) for changing Total Elements Long-Run Incremental Cost (TELRIC) methodology is to set an unbundled network elements (UNE) price, which is forward-looking, and yet has its roots in features of the real network. The Government of Japan makes some points as to whether the procedures that FCC proposes in the NPRM are really consistent with the FCC's goal, considering Japan's own experience of using an LRIC methodology.

1. As an attempt to make more appropriate and practical use of TELRIC methodology, the FCC tentatively concluded that it put more weight on features of the real network, rather than presuming a purely hypothetical network. The Government of Japan recognizes that this is one of possible approaches. The Government of Japan requests the FCC to confirm that the process of making the new methodology is transparent and verifiable, which are critical aspects to observe in elaborating a costing model. The Government of Japan recognizes, through our own experiences, that it requires a great deal of energy and efforts to find an adequate TELRIC methodology that reflects real network in an appropriate manner, but still believes that transparency and verifiability are crucial in establishing any costing model.

2. FCC intends to introduce an accelerated depreciation in setting a UNE price. This method of calculation would enable incumbent local exchange carriers (ILECs) to recover the entire cost of investment before the end of (economic) asset lives. This virtually enables the FCC to accommodate shorter asset lives, which is inconsistent with the requests made for years by the U.S. Government to Japan to lengthen the period of asset lives in Japan's LRIC model. The Government of Japan recommends that the FCC apply accelerated depreciation only to such facilities which are usually retired before their asset lives come to an end. The current circumstances of Japan's application of an LRIC methodology suggest that, while accelerated depreciation can be applied to transmission equipments,

whose capacity multiplies in a short period of time, it will not be applied to other facilities such as switching. The reason for the latter case is that carriers do not assume the retirement of those types of equipments before asset lives terminate in light of the continuous decrease in its traffic. The Government of Japan recommends that the U.S. Government elaborate methodologies for accelerated depreciation in a deliberate manner, taking account of the actual trends in investment in the telecommunications sector.

3. FCC assumes that local exchange carriers (LECs) do not instantly develop whole new facilities, but gradually equip them. As a result, LECs will possess both the latest equipments and obsolete ones at the same time in course of the renewal of facilities in the assumption.

   The Government of Japan suspects that this policy change by the FCC is inconsistent with the U.S. requests to Japan to assume instant full-scale construction of the most efficient network in Japan's LRIC model. In reality, LECs develop its facilities in a way that maximizes economic efficiency of its network, considering business cycles, competition and investment conditions, existence of groundbreaking innovations in technologies and other factors. The Government of Japan recommends the FCC to take account of these elements when it develops the new TELRIC model.

4. Finally, the Government of Japan requests the FCC to clarify the following points from an aspect other than those mentioned above, in relation to the UNE order that the FCC issued this August.

   The NPRM suggests that the FCC's revision of current TELRIC aims at enhancing incentives of both ILECs and competitive LECs (CLECs) for investments to their facilities. Since TELRIC models are applied mainly to the narrowband market, a policy effect of the NPRM is to encourage carriers to invest in the narrowband sector. From this perspective, the Government of Japan raises two points.

   The first point is that regulators should enhance the investment incentives in the broadband sector rather than narrowband in the current telecommunications market. Moreover, the FCC has already introduced regulatory measures which are necessary to promote investment in the field by the revised UNE rule finalized in August. Under the rule, ILECs have been relieved from a large part of unbundling obligation so that they can maintain sustainable investment into broadband facilities.

   The second case sheds a light onto the other side of the first question: to what extent do carriers need regulatory measures for the enhancement of new investment into narrowband? In Japan, incumbent carriers are curbing investments in the publicly switched telephone network (PSTN), rather than increasing them, because the amount of PSTN traffic has been rapidly decreasing due to the remarkable development of broadband. The Government of Japan assumes that a similar situation exists in the U.S.,

where the IP network has gradually been absorbing traffic from narrowband. Under this recognition, the Government of Japan points out that the policy goal of this NPRM, that is, the promotion of investment in narrowband, is diverting from the latest actualities of the telecommunications market, and therefore requests the Commission to articulate the logic behind this policy goal.